

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 L-03 H-01 CIAE-00 INR-07
NSAE-00 PA-01 PRS-01 USIA-06 EB-07 COME-00 OMB-01
TRSE-00 FRB-03 EPG-02 SEC-01 /048 W
-----039936 230212Z /63

R 221550Z JUL 77
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC 1666
INFO AMEMBASSY LONDON
USMISSION NATO
AMEMBASSY PARIS
AMCONSUL ZAGREB

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USOECD

E.O. 11652: N/A
TAGS: EFIN, ECON, YO
SUBJECT: YUGOSLAVIA ENTERS EUROBOND MARKET

SUMMARY: JUGOBANKA, ONE OF THE LARGEST AND MOST PRESTIGIOUS OF YUGOSLAV BANKS, HAS SUCCESSFULLY FLOATED A 20 MILLION DOLLAR, 4 AND 1/2 YEAR ISSUE ON THE EUROBOND MARKET. THIS IS THE FIRST TRUE UTILIZATION OF THE EUROBOND MARKET BY YUGOSLAVIA. SIMILAR ISSUES WILL PROBABLY BE FORTHCOMING FROM JUGOBANKA AND OTHER YUGOSLAV BANKS IN THE FUTURE, BUT ON A GRADUAL, MODERATE BASIS. END SUMMARY.

1. ON JULY 13, 1977, JUGOBANKA, ONE OF THE MOST INTERNATIONALLY ACTIVE YUGOSLAV BANKS, CONCLUDED A 20 MILLION DOLLAR ISSUE ON THE EUROBOND MARKET. THE BOND WILL BE REPAYABLE IN 4 AND 1/2 YEARS WITH NO INTERMEDIATE PAYMENTS AND IS MADE FOR THE ACCOUNT OF THE ENTERPRISE "ENERGOINVEST". TTK INTEREST RATE IS VARIABLE, 1 PERCENT OVER THE LONDON INTER-BANK OFFERING RATE (LIBOR),
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WITH A MINIMUM RATE OF 6 AND 1/2 PERCENT. THE LONDON OFFICE OF LOEB, RHOADES MANAGED THE FLOATING OF THE BOND. ACCORDING TO THE NEW JUGOBANKA PRESIDENT, BRANKO COLANOVIC, SUBSCRIPTION OFFERS EXCEEDED THE VALUE OF THE LOAN.

2. THIS THE FIRST YUGOSLAV ENTRY INTO THE EUROBOND MARKET. LJUBLJANKA BANKA ISSUED A BOND LAST YEAR, BUT IT WAS IN EFFECT

A PRIVATE PLACEMENT, AS IT WAS DENOMIATED IN KUWAITI DINARS AND SEVERAL KUWAITI BANKS SUBSCRIBED TO IT IN ADVANCE. JUGOBANKA EXPECTS MORE ISSUES SMILAR TO THIS JUGOBANKA BOND IN THE NEAR FUTURE INCLUDING ONE FAIRLY SOON BY ANOTHER BANK (ASL TO BE MANAGED BY LOEB, ROHOADES. THEY ADDED, HOWEVER, THAT THESE ISSUANCES WOULD BE DONE GRADUALLY IN ORDER TO ALLOW THE MARKET TO ADJUST TO THE YUGOSLAV BONDS. THIS ISSUANCE WAS IN THE WORKS FOR A LONG TIME AND WAS ONLY FINALIZE
MAFTER INFORMAL SOUNDINGS PROVED
FAVORABLE.

3. COMMENT: THE ADVANTAGES TO YUGOSLAVIA IN THIS PLACEMENT INCLUDE OPENING A DIFFERENT COURSE OF DEVELOPMENT CAPITAL, AVOIDING THE CLAUSE WHICH IS OBSTRUCTING SYNDICATED LOANS TO YUGOSLAV DRML
GXFSIBLE LOWER COSTS THAN STRAIGHT LOANS
(YUGOSLAVIA IS USUALLY RECEIVING AND INTEREST RATE OF
1 AND 3/4 PERCENT OVER LIBOR ON BANK-TO-BANK LOANS - ACCORDING TO JUGOBANKA THE 3/4 PERCENT DIFFERENCE IN RATES MORE THAN COMPENSATES FOR UNDERWRITING COSTS), A DIFFERENT REPAYMENT PERIOD (ONE LUM SUM AT END), AND PRESIGE.

4. THE MAIN DISADVANTAGE IS THAT THE BOND WILL BE EXPOSED FROM MARKET FORCZG AND NOT YUGOSLAV COM
R

. FUTURE CONCERNS
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ABOUT THE ECONOMIC VIABILITY OF YUGOSLAVIA WHICH MIGHT OTHERWISE REMAIN BENEATH THE SURFACE, MAY BE EXPRESSED HERE AND QUICKLY SPREAD THROUGHOUT THE FINANCIAL COMMUNITY. OTHER THAN PURCHASING THE BONDS FOR THEIR OWN ACCOUNT, THE YUGOSLAVS WOULD NOT BE IN A POSITION TO DIRECTLY INFLUENCE THIS MARKET. ANOTHER POSSIBLE DISADVANTAGE IS THE VARIABLE INTEREST RATE. IF LIBOR RATES INCREASE CONSIDERABLY, THE INTEREST CHARGES COULD INCREASE FAR BEYOND FIXED-RATE INTEREST COSTS.

5. AS JUGOBANKA HAS STATED, YUGOSLAVIA WILL UNDOUBTEDLY PROCEED SLOWLY IN THIS NEW MARKET, AS THE FAILURE OF BOND ISSUE COULD RAISE DOUBTS ABOUT THE ATTRACTIVENESS OF YUGOSLAV LOANS IN GENERAL.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MARKETS, BANKS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BELGRA04957
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770263-0117
Format: TEL
From: BELGRADE USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770731/aaaabaal.tel
Line Count: 108
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 05c3ea65-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags: ANOMALY
Review Date: 09-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1783451
Secure: OPEN
Status: NATIVE
Subject: YUGOSLAVIA ENTERS EUROBOND MARKET SUMMARY: JUGOBANKA, ONE OF THE LARGEST AND MOST PRESTIGIOUS OF YUGOSLAV BANKS, HAS SUCCESSFULLY FLOATED A 20 MILL
TAGS: EFIN, ECON, YO, XG, XH, JUGOBANKA
To: STATE
Type: TE
vdkgvkey: odbcr://SAS/SAS.dbo.SAS_Docs/05c3ea65-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009